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BEFORE THE ARIZONA CORPORATION COMMISSION

2009 JUL 27 P 2:00

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

AZ CORP COMMISSION
DOCKET CONTROL

In the matter of:

DOCKET NO. S-20692A-09-0372

MICHAEL C. REYNOLDS, a married man;

NOTICE OF OPPORTUNITY FOR HEARING
REGARDING PROPOSED ORDER TO

TANZIA REYNOLDS, a married woman;

CEASE AND DESIST, ORDER FOR
RESTITUTION, ORDER FOR

CASH 2 U, LLC, an Arizona limited liability
company;

ADMINISTRATIVE PENALTIES AND FOR
OTHER AFFIRMATIVE ACTION

DOS NINAS, LLC, an Arizona limited
liability company;

Arizona Corporation Commission
DOCKETED

PAR 3 MANAGEMENT, LLC, an Arizona
limited liability company;

JUL 27 2009

Respondents.

DOCKETED BY

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NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents MICHAEL C. REYNOLDS, a married man, TANZIA REYNOLDS, a married woman, CASH 2 U, LLC, an Arizona limited liability company, DOS NINAS, LLC, an Arizona limited liability company, and PAR 3 MANAGEMENT, LLC, an Arizona limited liability company have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

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I.**JURISDICTION**

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.**RESPONDENTS**

2. MICHAEL C. REYNOLDS ("REYNOLDS") is an individual who, at all relevant times, resided in Maricopa County, Arizona.

3. At all relevant times, REYNOLDS conducted business as Friendship Finance or Friendship Finance, LLC (collectively "Friendship").¹

4. TANZIA REYNOLDS ("T. REYNOLDS") is an individual who, at all relevant times, resided in Maricopa County, Arizona.

5. REYNOLDS and T. REYNOLDS are husband and wife. At all times relevant, REYNOLDS and T. REYNOLDS have been acting for their own benefit and for the benefit or in furtherance of their marital community.

6. CASH 2 U, LLC ("CASH") is an Arizona limited liability company organized on June 24, 1999. At all relevant times, CASH had its principal place of business in Maricopa County, Arizona.

7. Pursuant to the public records of the Commission, REYNOLDS has been the sole manager of CASH since June 24, 1999.

8. DOS NINAS, LLC ("DOS") is an Arizona limited liability company organized on November 13, 2003. At all relevant times, DOS had its principal place of business in Maricopa County, Arizona.

¹ Friendship Finance, Inc. is an Arizona corporation owned by REYNOLDS' father-in-law and not REYNOLDS. Additionally, Friendship Finance is an Arizona registered trade name owned by someone other than any of the Respondents.

9. Pursuant to the public records of the Commission, REYNOLDS has been the sole manager of DOS since November 13, 2003.

10. PAR 3 MANAGEMENT, LLC ("PAR 3") is an Arizona limited liability company organized on June 17, 2003. At all relevant times, PAR 3 had its principal place of business in Maricopa County, Arizona.

11. Pursuant to the public records of the Commission, REYNOLDS has been the sole manager of PAR 3 since June 17, 2003.

12. REYNOLDS, T. REYNOLDS, CASH, DOS and PAR 3 may be referred to collectively as "Respondents."

III.

FACTS

13. In or around 2004 through 2008, the Respondents touted an investment opportunity in payday loan stores (“stores”).

14. Respondents represented to the investors that funds would be used to expand the stores in one of two ways. The expansion would occur through increasing the number of stores and offering title loans.

15. The Respondents raised at least \$3,000,000 from at least 14 investors residing in Arizona through the offer and sale of promissory notes and investment contracts in the form of membership interests in a limited liability company in order to fund the expansion of the stores.

A. PROMISSORY NOTES

16. CASH, DOS, PAR 3, REYNOLDS and T. REYNOLDS issued promissory notes. REYNOLDS, individually, and/or on behalf of CASH, DOS or PAR 3, signed the promissory notes.

17. T. REYNOLDS issued at least one promissory note to an investor. T. REYNOLDS is listed as a "Maker," along with REYNOLDS. The promised interest rate was 36 percent with interest payments to be made each month.

1 18. REYNOLDS, individually and on behalf of CASH, told at least one investor that
2 CASH was a "recession-proof" business.

3 19. REYNOLDS and CASH promised various interest rates to the investors. Each of
4 the promissory notes had a stated annual rate of return varying from seven and a half percent to 48
5 percent. Also, each of the promissory notes state interest would be paid monthly, and depending
6 on the promissory note, the terms were from two months to one year.

7 20. REYNOLDS and PAR 3 promised to pay an investor a monthly interest payment of
8 \$4,500.

9 21. REYNOLDS and DOS promised to an investor a return of five and a half percent a
10 month for a term of one year.

11 22. Some investors received a few interest payments but then the payments stopped or
12 the interest checks were not honored because of insufficient funds. Respondents misrepresented
13 that the investors would receive monthly interest payments until the promissory notes became due
14 and payable.

15 23. Respondents represented that the repayment of the notes were guaranteed by the use
16 of collateral in the form of a lien against the personal residence of Reynolds or the accounts
17 receivable of his stores.

18 24. Respondents failed to tell the investors that there was a mortgage on REYNOLDS'
19 residence, that the residence had been pledged as security to other investors, that there was no
20 documentation to allow the investors to exercise their security interest in the collateral and/or that
21 there were no accounts and loans receivable to pledge as security for the notes.

22 **B. INVESTMENT CONTRACT**

23 25. REYNOLDS and CASH entered into written agreements with at least three
24 investors whereby for an investment of funds the investor would purportedly receive a membership
25 interest in an Arizona limited liability company ("LLC") as well as a percentage interest of the net
26 cash flow of a new store that REYNOLDS and CASH would open in Arizona.

1 26. At least three investors contributed funds to receive the LLC interest and a
2 percentage interest of the net cash flow of a store.

3 27. REYNOLDS and CASH promised to form an Arizona LLC for each of the new
4 stores that included the investor as a member. In at least two instances, an Arizona LLC was not
5 formed. In another instance, REYNOLDS provided to the investor articles of organization for a
6 limited liability company called G5 Financial, LLC. However, REYNOLDS did not file the
7 requisite paperwork to form G5 Financial, LLC with the investor.

8 28. REYNOLDS and CASH promised the investors a percent of the net cash flow per
9 month. At least one investor was promised 50 percent of the net cash flow per month. At least two
10 other investors were promised 20 percent of the net cash flow per month. However, none of the
11 investors received a return because the stores did not open.

12 29. REYNOLDS and CASH promised to contribute their own capital to operate the
13 stores. For at least one investment, they promised to contribute \$150,000. In another instance,
14 they promised to contribute 40 percent of the capital plus "supply additional monies on an as-
15 needed basis to sustain growth." REYNOLDS and CASH failed to supply the amount of capital
16 promised.

17 30. REYNOLDS and CASH promised each of the investors REYNOLDS would
18 provide the requisite license to operate each store. REYNOLDS did not acquire from the
19 Department of Financial Institutions ("DFI") the required state licensing for the stores. In at least
20 two instances, REYNOLDS did not apply for DFI licensing.

21 31. REYNOLDS and CASH assigned the roles and responsibility for the investors and
22 REYNOLDS. In at least two instances, REYNOLDS, not the investor, would manage all facets of
23 the stores, including but not limited to providing the licensing, selecting the store location,
24 managing the operations of the business (i.e., daily operations, human resources, accounting,
25 marketing, technology, office management, and record keeping), and obtaining permits and
26 licenses. The investor's sole role was to provide the funding.

1 32. In another case, the agreement called for the investor and REYNOLDS to share
2 responsibilities. However, in practice, the investor had no input regarding the store other than to
3 provide the funds to open it. REYNOLDS handled all aspects of the store, including selecting the
4 store location and directing the remodeling of the selected site.

5 **C. GENERAL ALLEGATIONS**

6 33. Respondents used investor funds to pay personal expenses and to repay investors.
7 Respondents failed to disclose to the investors their funds would be used in this manner.

8 34. To at least two investors, REYNOLDS presented himself as the owner of
9 Friendship, an existing payday loan store operator and/or franchisor in Arizona; however,
10 REYNOLDS did not have an ownership interest in Friendship.

11 35. REYNOLDS provided to at least two investors documents showing REYNOLDS
12 was seeking investments for Friendship. One such document purported to show that Friendship
13 was engaged in a \$5 million capital raising program. The second such document purported to
14 show Friendship seeking short-term funding of \$250,000 to \$500,000 that paid an annual interest
15 rate of 36 percent.

16 36. In the *Executive Summary of the short-term funding proposal*, REYNOLDS stated
17 he has owned five stores and successfully operated them.

18 37. To some investors, REYNOLDS said he currently owned from three to six stores.
19 REYNOLDS did not disclose he owned one store located in Mesa, Arizona. Furthermore,
20 REYNOLDS did not disclose that he stopped loaning money to customers at the Mesa store.

21 38. T. REYNOLDS attended several meetings with potential investors. She provided
22 information on the stores. T. REYNOLDS' information included a historical perspective on the
23 growth patterns of the stores, explained the operations of the payday loan stores, and spoke to
24 emulating her father's success with his company.

25 39. T. REYNOLDS also received investor funds directly into her personal account and
26 had deposited a check into an investor's account without the authorization of the investor.

40. Respondents failed to disclose to the investors the risks of investing, including but not limited to, their limited experience developing their own stores; their operating history which included an open store that stopped loaning out money and a closed store; stores that were purportedly to open with investor funds that did not open; limited resources to operate the stores; and the possibility of customer nonpayment.

41. At all times relevant, the Respondents were not registered with the Commission as dealers or salesmen.

42. At all times relevant, the promissory notes and investment contracts were not registered with the Commission.

IV.

VIOLATION OF A.R.S. § 44-1841

(Offer or Sale of Unregistered Securities)

43. From on or about 2004 through 2008, Respondents offered and sold securities in the form of promissory notes and investment contracts within or from Arizona.

44. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

45. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

46. Respondents offered or sold securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

47. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

48. In connection with the offer or sale of securities within or from Arizona, Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts that were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not limited to, the following:

a) REYNOLDS misrepresented he had an ownership interest in Friendship when he did not;

b) REYNOLDS misrepresented the number of stores he actually owned when he owned one store in Mesa, Arizona and that the other stores he purported to own were either closed or owned by someone else;

c) Respondents misrepresented the use of the funds when the funds were used for purposes not intended by the investors, such as repaying investors and using it for personal expenses instead of expanding the stores;

d) Respondents misrepresented that the investors would receive monthly interest payments when the payments stopped before the promissory notes matured;

e) REYNOLDS and CASH misrepresented to at least three investors that invested with REYNOLDS and CASH to open a store whereby each investor would hold a membership interest in an LLC when none of the purported stores were opened, REYNOLDS and CASH did not provide their promised capital contributions, REYNOLDS did not file the requisite paperwork for the limited liability companies and REYNOLDS did not acquire DFI licensing;

f) Respondents failed to disclose to the investors the risks of investing, including but not limited to, Respondents limited experience developing their own stores; their operating history which included an open store that rarely loaned out money and a closed store; stores that were purportedly to open with investor funds that did not open; limited resources to operate the stores; and the possibility of customer nonpayment; and

g) Respondents failed to tell the investors that there was a mortgage on REYNOLDS' residence, that the residence had been pledged as security to other investors, that there was no documentation to create a security interest in the collateral, and/or that there were no accounts and loans receivable to pledge as security for the promissory notes.

49. This conduct violates A.R.S. § 44-1991.

50. REYNOLDS directly or indirectly controlled persons within the meaning of A.R.S. § 44-1999, including but not limited to CASH 2 U, LLC, DOS NINAS, LLC, and PAR 3 MANAGEMENT, LLC. Therefore, REYNOLDS is jointly and severally liable under A.R.S. § 44-1999 to the same extent as CASH 2 U, LLC, DOS NINAS, LLC, and PAR 3 MANAGEMENT, LLC for its violations of A.R.S. § 44-1991.

VII.

REQUESTED RELIEF

The Division requests that the Commission grant the following relief:

1. Order Respondents to permanently cease and desist from violating the Securities Act pursuant to A.R.S. § 44-2032;

2. Order Respondents to take affirmative action to correct the conditions resulting from Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;

3. Order Respondents to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

1 4. Order that the marital community of MICHAEL C. REYNOLDS and TANZIA
2 REYNOLDS be subject to any order of restitution, rescission, administrative penalties, or other
3 appropriate affirmative action pursuant to A.R.S. § 25-215; and

4 5. Order any other relief that the Commission deems appropriate.

5 **VIII.**

6 **HEARING OPPORTUNITY**

7 Each respondent may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-
8 **306. If a Respondent requests a hearing, the requesting respondent must also answer this**
9 **Notice.** A request for hearing must be in writing and received by the Commission within 10
10 business days after service of this Notice of Opportunity for Hearing. The requesting respondent
11 must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W.
12 Washington, Phoenix, Arizona 85007. Filing instructions may be obtained from Docket Control by
13 calling (602) 542-3477 or on the Commission's Internet web site at
14 <http://www.azcc.gov/divisions/hearings/docket.asp>.

15 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin
16 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the
17 parties, or ordered by the Commission. If a request for a hearing is not timely made the
18 Commission may, without a hearing, enter an order granting the relief requested by the Division in
19 this Notice of Opportunity for Hearing. Persons with a disability may request a reasonable
20 accommodation such as a sign language interpreter, as well as request this document in an
21 alternative format, by contacting Shaylin A. Bernal, ADA Coordinator, voice phone number 602-
22 542-3931, e-mail sabernal@azcc.gov. Requests should be made as early as possible to allow time to
23 arrange the accommodation.

IX.

ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if a Respondent requests a hearing, the requesting respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at <http://www.azcc.gov/divisions/hearings/docket.asp>.


Additionally, the answering respondent must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007, addressed to Aikaterine Vervilos.

The Answer shall contain an admission or denial of each allegation in this Notice and the original signature of the answering respondent or respondent's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When the answering respondent intends in good faith to deny only a part or a qualification of an allegation, the respondent shall specify that part or qualification of the allegation and shall admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

Dated this 27 day of July, 2009.



Matthew J. Neubert
Director of Securities

(AV)